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UNCLAS SECTION 01 OF 02 BELGRADE 000365

SIPDIS

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USDOC FOR 4232/ITA/MAC/EUR/OEERIS/SSAVICH

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [SR](#)

SUBJECT: GOS CANCELS RTB BOR SALE TO THE AUSTRIANS

REF: A. a) 07 Belgrade 1700

[1](#)B. b) Belgrade 155

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SUMMARY

[1](#)1. Serbia's caretaker government, on April 10, voted to cancel the sale of copper mining company and smelting RTB Bor to Austrian company A-Tec even after the Austrian government pledged financial backing. The decision came one day after a government steering committee of G17 and DS ministers recommended the sales contract be cancelled, citing a loss of confidence that A-Tec would fulfill its present and future financial obligations. The government also announced it would begin negotiations with a Russian bidder, who has not yet fulfilled the tender requirements. The decision appears politically motivated, as the government could have given A-Tec an extension to find adequate funding. End Summary.

GOS CANCELS RTB BOR SALE TO THE AUSTRIANS, APPROACHES RUSSIANS

[1](#)2. On April 10, Serbia's caretaker government voted to cancel the sale of copper mining and smelting complex Rudarsko Topionickarski Basen (RTB) Bor to Austrian consortium A-Tec Minerals and Montanwerke Brixlegg AG (A-Tec). In a press release, Minister of Economy Mladjan Dinkic addressed the Austrian government's pledge of financial backing to A-Tec in saying "empty promises will not help RTB Bor, investment and jobs will." Dinkic added that contracts must be respected. Since winning the tender, A-Tec has twice requested to extend its payment deadline due to recent political instability and Deutsche Bank's withdrawal of financial backing (Reftel A).

[1](#)3. GOS announced it will begin negotiations with second ranked bidder Russian firm Strikeforce Mining and Resources (SMR), part of Basic Element and owned by Oleg Deripaska (Reftel B). SMR, however, has not fulfilled several technical tender

requirements. Immediately following the government's decision, SMR announced it wanted open-ended dates for purchase payments and the construction of a new smelter, as well as more relaxed environmental standards for the plant. A-Tec said it would consider suing the government if it began negotiations with SMR.

RECOMMENDATION TO CANCEL BASED ON LOSS OF CONFIDENCE

¶4. On April 9, the government steering committee overseeing the privatization of RTB Bor decided to recommend to the government to cancel the sale's contract with A-Tec. The committee, chaired by Minister of Economy Mladjan Dinkic (G17) and made up of G17 and DS ministers and the Privatization Agency director, arrived at the decision by consensus. RTB Bor management and trade unions were also in attendance and voiced their opinions. Rudolf Navijalic, representative of the pro-democratic trade union Nezavisnost, and the only dissenter of the recommendation, told EconAsst that Dinkic defended his recommendation saying he had lost confidence that A-Tec would fulfill its contractual obligations. Dinkic said GOS would keep the \$10 million bank guarantee to restructure RTB Bor, but would return A-Tech's first tranche payment of \$150 million.

POLITICAL REASONS FOR RECOMMENDATION

¶5. According to embassy sources, the recommendation to cancel had more to do with politics and less with Dinkic's loss of confidence. Unofficially, Dinkic told Navijalic that he had to support cancelling the contract to avoid possible political

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attacks from DSS against the western leaning parties, including G17 and DS. Ivana Grbic, a G17 member close to Dinkic, said pressure from Srdjan Saper, president of the advertising agency McCann Ericsson in Serbia and President Boris Tadic's campaign manager and media advisor, may be the real reason for the decision. According to Grbic, Oleg Deripaska, the owner of SMR is one of McCann Ericson's largest clients in Serbia.

COMMENT

¶6. The cancellation of RTB Bor's sale to A-Tec may be yet another example of campaign politics at work, with the democrats using the decision to dodge another DSS attack. GOS could argue that it was more than fair with A-Tech by extending its payment deadline once. However, a decision to sell RTB Bor to SMR given the company's recent purchase demands would be a blatant display of favoritism to yet another Russian company. A sale to SMR could also be seen as a conciliatory gesture to Russia after postponing the ratification of the Serbian-Russian energy deal. Either way, the cancellation of the sale constitutes another black eye for Serbia's foreign investment climate. End Comment.

MUNTER